

Bank of India

Rs 353

Strong performance; unfavorable risk-reward

SELL

BOI reported impressive performance of PAT of Rs 718 crore, growing 10.0% y-o-y & 46.2% q-o-q, above our expectation and market consensus. NII growth continued to be in single digit with 4.1% y-o-y & 8.6% q-o-q led by 11bps sequential NIM expansion and 7.5% q-o-q growth in loan book. Core fee income grew modestly 12.9% y-o-y due to balance sheet slowdown. Cash recoveries shot up 112% q-o-q to Rs186 crore, contributing 21.8% to non interest income. Strong operating revenues and contraction in OPEX resulted into marked improvement in cost to income ratio. Incremental slippage ratio has declined 1%; resultant loan loss provision was down 60% q-o-q. On restructuring front, the bank has restructured loans amounting to Rs3,010 crore (1.3% of loans) on which Rs160 crore was provided for present value loss. Lower provisions, muted OPEX and stronger cash recoveries resultant into impressive bottom line performance. Gross NPAs and Net NPAs stood at 2.7% & 1.8% respectively with reported PCR at 60.9%. Loan and deposit growth were 20.9% y-o-y and 21.7% y-o-y respectively. Maintain SELL.

Muted NII growth- Net interest income continued to grow in single digit due to tepid domestic loan book growth (8.2% y-o-y growth). Net interest margins increased 11bps q-o-q to 2.55% led by both domestic and overseas operations. We believe interest margins are likely to improve on the back of lower cost of funds and better pricing power going forward. We expect NII to grow at CAGR 14.3% over FY11-13e driven by 17.7% CAGR in loan book.

Strong cash recoveries boosted non interest income- Non- interest income grew strongly 31.5% y-o-y and 1.2% q-o-q to Rs842 crore driven by strong cash recoveries (up 112% q-o-q) and steady core fee income growth (13% y-o-y). Trading gains declined 54% q-o-q to Rs71 crore, contributing 6.8% to PBT. Exchange profits pegged at Rs 148 crore, down 16% q-o-q. We are factoring 13.3% CAGR in core fee income over FY11-FY13e.

Incremental delinquency declined sharply – key positive - GNPA and Net NPAs declined by 2% q-o-q and 4% q-o-q respectively during the quarter. In terms of quarterly trend, fresh slippages came off drastically by 81.6% q-o-q to Rs519 crore. Recoveries and up gradation increased 51.4% q-o-q & 46.7% q-o-q. The bank has restructured loans amounting to Rs3010 crore (1.3% of loans) during the quarter. Restructured asset pool stood at 4.8% of loans (borrower wise), out of which 23.4% slipped into NPAs. In term of sectoral contribution to gross NPAs, industry and services contributed by 40.4% and 34.4% respectively. Loans amounting to Rs 514 crore turned into NPA from the restructured book. Loan loss provisions declined 60% q-o-q to Rs 330 crore from Rs824 crore in Q2FY12.

Valuation & Recommendation

BOI has delivered better than expected core operating performance during the quarter. Weaker loans growth, tepid fee growth, higher restructuring and relatively higher slippages from restructured book were key disappointment from the numbers. Currently the stock is quoting at 1.1x P/ABV on FY13e book and 6.6x FY13e earnings, look expensive given weaker ROE levels in medium term. **We have revised FY12 & FY13 earnings estimates by 15.1% and 1.3% respectively factoring lower credit costs. We maintain our SELL rating on the stock with a target price of Rs300.**

Key Financials

Rs. Crore

Particulars	FY10	FY11	FY12E	FY13E
Net Interest Income	5,756	7,811	8,447	10,211
Pre-Provision Profit	4,705	5,384	6,733	7,494
Net Profit	1,741	2,489	2,468	2,908
EPS	33.1	45.5	45.1	53.1
BVPS	243	292	331	376
ABVPS	229	280	283	323
P/E	10.7	7.8	7.8	6.6
P/ABV	1.5	1.3	1.2	1.1

Source: Company, KRChoksey Research

Target Price (Rs): 300

Potential Upside : -15.0%

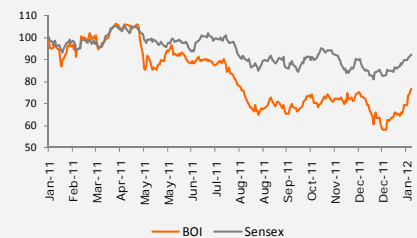
Previous TP (Rs): 325

Market Data	
Equity sh. O/S (cr)	54.6
MCAP (Rs cr)	18,826
52 Wk H/L (Rs)	498/261
Avg Vol (3m '000)	51365
Fee float (%)	34.1
Face Value (Rs)	10
Bloomberg Code	BOI IN

Market Info:

SENSEX	17,570
NIFTY	5,289

Price Performance



Share Holding pattern (%)

Particulars	Dec-11	Sep-11	Chg
Promoters	65.9	65.9	0.0
FII's	15.2	14.8	0.4
Institutions	11.9	12.4	-0.6
Others	7.0	6.9	0.1
Total	100.0	100.0	0.0

Source: BSE

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Weaker NII growth

Net interest income continued to grow in single digit due to tepid domestic loan book growth (8.2% y-o-y growth). Net interest margins increased 11bps q-o-q to 2.55% led by both domestic and overseas operations. We believe interest margins are likely to improve on the back of lower cost of funds and better pricing power going forward. We expect NII to grow at CAGR 14.3% over FY11-13e driven by 17.7% CAGR in loan book.

Exhibit : 1 Loan and NII growth Trend

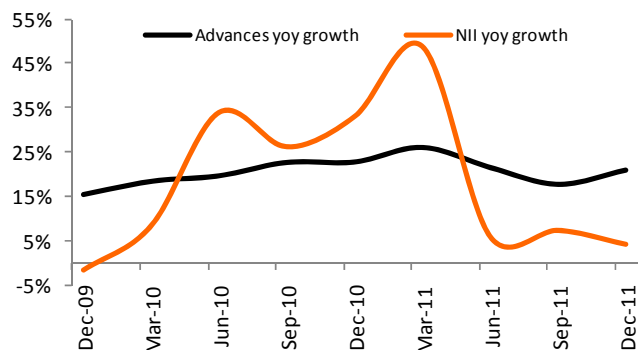
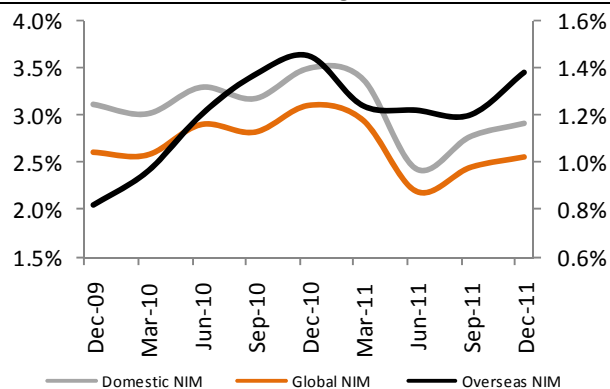


Exhibit : 2 Pressure on Net interest margin



Source: Company, KRChoksey Research

Strong cash recoveries boosted non interest income

Non- interest income grew strongly by 31.5% y-o-y and 1.2% q-o-q to Rs842 crore driven by strong cash recoveries (up 112% q-o-q) and steady core fee income growth (13% y-o-y). Trading gains declined 54% q-o-q to Rs71 crore, contributing 6.8% to PBT. Exchange profits pegged at Rs 148 crore, down 16% q-o-q. We are factoring 13.3% CAGR in core fee income over FY11-FY13e.

Exhibit : 3 Non- interest income growth trend

Rs in crore	Q3FY12	Q2FY12	Q3FY11	Q-o-Q	Y-o-Y	9MFY12	9MFY11	Y-o-Y
Profit from sale of securities	71	154	59	-54%	20%	335	195	72%
Profit from exchange transactions	124	148	127	-16%	-3%	419	369	14%
Commission/ Exchange/ Brokerage	320	326	284	-2%	13%	920	835	10%
Recovery in written off accounts	186	88	66	112%	182%	305	133	129%
Other non interest income	151	126	112	20%	34%	375	287	31%
Non interest income	852	842	648	1%	31%	2354	1819	29%

Source: Company, KRChoksey Research

Deposit growth at 21.7% y-o-y, domestic CASA improved 81bps q-o-q to 32.2%

Deposits grew by 21.7% y-o-y & 2.7% q-o-q to Rs 3,07,252 crore; foreign deposit grew by 66.1% y-o-y to Rs 54,539 crore against domestic deposits growth of 13.8%, largely attributable to rupee depreciation. CASA deposit growth was at 13.4% y-o-y in line with peer banks' growth trend. As a result, term deposits grew by 14.0% y-o-y. However, domestic CASA ratio improved by 81bps q-o-q to 32.2%.

Exhibit : 4 CASA ratio, deposits growth trend and cost of deposits

Rs in crore	Q3FY12	Q2FY12	Q3FY11	Q-o-Q	Y-o-Y	Mix
Deposits	307252	299074	252526	2.7%	21.7%	100.0%
- Domestic Deposits	244305	244535	214717	-0.1%	13.8%	79.5%
CA Deposits	14965	13140	13620	13.9%	9.9%	4.9%
SA Deposits	63606	63513	55667	0.1%	14.3%	20.7%
Term Deposits	165734	167883	145431	-1.3%	14.0%	53.9%
- Overseas Deposits	62817	54539	37809	15.2%	66.1%	20.4%
CASA ratio (Domestic)	32.2%	31.3%	32.3%	81 bps	-11 bps	-

Source: Company, KRChoksey Research

Strong growth in SME loan book led to domestic loan book growth

Loan book growth moderated further to 20.9% y-o-y and 7.5% on q-o-q basis to Rs 2,33,115 crore, driven by overseas advances that grew by 66.9%, while domestic advances increased by 8.2% y-o-y led by strong growth in SME (23.5% q-o-q). On q-o-q basis, credit demand moderated across the sectors except SME and retail. Corporate loans grew modestly by 7.5% y-o-y. However, SME loans saw strong growth 23.5% q-o-q while retail loan book grew 9.8% q-o-q. The management has scaled down its credit growth target to 16-17% in FY12; however we have factored in 17.7% loan CAGR over FY11-13e.

Exhibit :5 Advance growth trend

Rs in crore	Q3FY12	Q2FY12	Q3FY11	Q-o-Q	Y-o-Y	Mix
- Domestic advances	163247	157863	150903	3.4%	8.2%	70.0%
<i>Agriculture</i>	20780	19641	20540	5.8%	1.2%	8.9%
<i>SME</i>	31150	25214	27858	23.5%	11.8%	13.4%
<i>Retail</i>	18004	16395	15620	9.8%	15.3%	7.7%
<i>Corporate</i>	93391	96614	86885	-3.3%	7.5%	40.1%
- Overseas advances	69868	59087	41851	18.2%	66.9%	30.0%
Advances	233115	216950	192754	7.5%	20.9%	100.0%

Source: Company, KRChoksey Research

Incremental delinquency declined sharply – key positive

GNPA and Net NPAs declined by 2% q-o-q and 4% q-o-q respectively during the quarter. In terms of quarterly trend, fresh slippages came off drastically by 81.6% q-o-q to Rs519 crore. Recoveries and up gradation increased 51.4% q-o-q & 46.7% q-o-q. The bank has restructured loans amounting to Rs3010 crore (1.3% of loans) during the quarter. Restructured asset pool stood at 4.8% of loans (borrower wise), out of which 23.4% slipped into NPAs. In term sectoral contribution to gross NPAs, industry and services contributed by 40.4% and 34.4% respectively. Loans amounting to Rs 514crore turned into NPA from the restructured book. Loan loss provisions declined 60% q-o-q to Rs 330 crore from Rs824 crore in Q2FY12.

Exhibit :6 Gross NPA and Net NPA Trend

Rs in crore	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q-o-Q	Y-o-Y
Gross NPAs	4542	4812	5791	6548	6386	-2.5%	40.6%
Net NPAs	1660	1945	2690	4245	4093	-3.6%	146.5%
GNPA ratio	2.4%	2.2%	2.7%	3.0%	2.7%	-28 bps	38 bps
NNPA ratio	0.9%	0.9%	1.3%	2.0%	1.8%	-20 bps	90 bps
Provision coverage ratio - calc	63.4%	59.6%	53.6%	35.2%	35.9%	73 bps	-2754 bps
Provision coverage ratio - reported	74.5%	72.2%	66.8%	59.1%	60.9%	174 bps	-1365 bps
Slippage ratio	1.1%	2.1%	3.2%	5.4%	1.0%	-441 bps	-8 bps
Restructured asset pools	5.4%	4.9%	5.2%	5.1%	4.8%	-36 bps	-60 bps
Impaired assets	6.2%	5.8%	6.4%	7.1%	6.5%	-56 bps	30 bps

Source: Company, KRChoksey Research

Exhibit :6 Slippages from restructured asset pool

Rs in crore	Domestic	Overseas	Global	RA	As % of RA
As on 31st March, 2011	1814	0	1814	10645	17.0%
As on 30th June, 2011	2337	0	2337	11102	21.0%
As on 30th Sept, 2011	2580	87	2667	11115	23.2%
As on 31st Dec, 2011	3137.5	85	3222	13674	23.4%

Marginal improvement in cost to income ratio

Operating expenses declined by 4.9% y-o-y & 0.7% q-o-q to Rs 1,186 crore. Employee cost increased by 4.3% q-o-q to Rs 759 crore, while other operating expenses declined by 8.5% y-o-y to Rs 427 crore. As a result, cost to income ratio improved to 40.6% from 43.5% in Q2FY12.

Earnings Revisions

	FY12e		Change (%)	FY13e		Change (%)
	Old	New		Old	New	
Net Interest Income	8344	8447	1.2%	10126	10211	0.8%
Pre Provision Profit	6117	6733	10.1%	7439	7494	0.7%
Net Profit	2145	2468	15.1%	2869	2908	1.3%

Source: Company, KRChoksey Research

Q3FY12: Result Analysis

Rs in crore	Q3FY12	Q2FY12	Q3FY11	Q-o-Q	Y-o-Y
Income Statement					
- Interest on advances	5171	4886	4023	5.8%	28.5%
- Income from investments	1841	1843	1275	-0.1%	44.4%
- Other interest	137	157	169	-12.4%	-18.8%
Interest income	7150	6886	5468	3.8%	30.8%
Interest expense	5083	4982	3481	2.0%	46.0%
Net interest income	2068	1904	1987	8.6%	4.1%
- Core fee income	320	326	284	-1.7%	12.9%
- Trading gains	71	154	59	-53.9%	20.3%
Non interest income	852	842	648	1.2%	31.5%
Operating income	2920	2746	2635	6.3%	10.8%
- Employee costs	759	728	837	4.3%	-9.3%
- Other operating expense	427	467	409	-8.5%	4.3%
Operating expenses	1186	1194	1246	-0.7%	-4.9%
Pre-provision profits	1734	1552	1389	11.8%	24.8%
- Loan loss provision	330	824	124	-60.0%	167.0%
- Dep on investments	119	151	66	-21.2%	80.9%
- Others	244	179	309	36.3%	-20.9%
Provisions	693	1154	498	-40.0%	39.2%
Profit before tax	1041	397	891	162.1%	16.8%
Tax expense	323	-94	238	-443.4%	35.8%
Net profits	718	491	653	46.2%	10.0%
Key balance sheet items					
Advances	233115	216950	192754	7.5%	20.9%
Deposits	307252	299074	252526	2.7%	21.7%
Investments	86554	90781	65728	-4.7%	31.7%
Spread Analysis					
Yield on avg advances	9.19%	9.05%	8.53%	14 bps	66 bps
Yield on avg investments	8.47%	8.30%	7.63%	17 bps	84 bps
Cost of deposits	0.00%	6.09%	4.84%	-609 bps	-484 bps
Net interest margins	2.21%	2.12%	2.53%	9 bps	-32 bps
Net interest margins	2.55%	2.44%	3.09%	11 bps	-54 bps
Other Key ratios					
CD ratio	75.9%	72.5%	76.3%	333 bps	-46 bps
CASA ratio	32.2%	31.3%	32.3%	81 bps	-11 bps
Cost to income ratio	40.6%	43.5%	47.3%	-288 bps	-668 bps
Trading gains / Non interest income	8.4%	18.3%	9.1%	-999 bps	-78 bps
Trading gains / Operating income	2.4%	5.6%	2.2%	-318 bps	19 bps
Effective tax rate	31.0%	-23.7%	26.7%	5466 bps	432 bps
Asset Quality					
Gross NPAs	6386	6548	4870	-2%	31%
Net NPAs	4093	4245	1660	-4%	147%
GNPA ratio	2.7%	3.0%	2.4%	-28 bps	38 bps
NNPA ratio	1.8%	2.0%	0.9%	-20 bps	90 bps
Provision coverage ratio - calc	35.9%	35.2%	65.9%	73 bps	-3000 bps
Provision coverage ratio - reported	60.9%	59.1%	74.5%	174 bps	-1365 bps
LLP / Avg advances	0.0%	1.5%	0.3%	-152 bps	-27 bps
Slippage ratio	1.0%	5.4%	1.1%	-441 bps	-8 bps
Restructured asset pool	5.2%	4.9%	0.0%	24 bps	517 bps
Capital Adequacy Ratio					
Tier I	7.7%	8.3%	8.0%	-61 bps	-32 bps
Tier II	3.5%	3.7%	4.4%	-18 bps	-91 bps
CAR	11.2%	12.0%	12.4%	-79 bps	-123 bps

Source: Company, KRChoksey Research

Financials

Income Statement

Rs in crore	FY10	FY11	FY12E	FY13E
Interest income	17878	21752	28756	33874
Interest expense	12122	13941	20309	23664
Net Interest Income	5756	7811	8447	10211
-- Core fee Income	1468	1684	1912	2160
Non interest income	2617	2642	3264	3184
Operating income	8373	10452	11711	13395
Operating expenses	3668	5068	4978	5901
-Employee cost	2296	3475	3015	3141
-Other operating expenses	1372	1593	1963	2759
Pre-provision profits	4705	5384	6733	7494
Provisions	2211	1889	3257	3340
PBT	2494	3495	3476	4154
Provision for taxes	753	1007	1008	1246
Net profit	1741	2489	2468	2908
Dividend (Inc. tax)	243	348	346	436

Spread Analysis

	FY10	FY11	FY12E	FY13E
Avg Yield On Advances	8.4%	8.1%	8.8%	9.1%
Avg Yield On Investments	7.5%	6.8%	7.9%	7.5%
Avg Yield On IBA	7.4%	7.2%	8.0%	8.1%
Avg Cost Of Deposits	5.2%	4.9%	5.8%	5.8%
Avg Cost of Funds	5.3%	5.1%	5.9%	5.9%
Spread	2.1%	2.1%	2.1%	2.2%
NIM	2.4%	2.6%	2.3%	2.4%

Asset Quality Profile

	FY10	FY11	FY12E	FY13E
Gross NPA	4883	4812	7217	7774
Net NPA	2207	1945	3903	4188
Gross NPA %	2.9%	2.2%	2.9%	2.6%
Net NPA %	1.3%	0.9%	1.6%	1.4%
Credit Costs	1.1%	0.6%	1.0%	0.9%

Per Share Data

(Rs)	FY10	FY11	FY12E	FY13E
EPS	33	45	45	53
DPS	5	6	6	8
BVPS	243	292	331	376
ABVPS	229	280	283	323
P/E	10.7	7.8	7.8	6.6
P/ABV	1.5	1.3	1.2	1.1
Dividend Yield	1.3%	1.8%	1.8%	2.3%

Source: Company, KRChoksey Research

Balance Sheet

Rs in crore	FY10	FY11	FY12E	FY13E
Equity capital	526	547	547	547
Res. and Sur.	13704	16743	18866	21338
Net worth	14230	17291	19413	21885
Deposits	229762	298886	346708	409115
Borrowings	22400	22021	24900	25900
CL and prov.	8575	12975	12068	14163
Total	274966	351173	403089	471062
Cash & Bal. with RBI	15603	21782	19979	23575
Bal. with RBI	15628	15528	20802	21588
Investments	67080	85872	97078	110461
Advances	168491	213096	248257	295426
Fixed assets	2352	2481	2555	2632
Other assets	5814	12413	14417	17381
Total	274966	351173	403089	471062

Dupont Analysis

(As % Avg assets)	FY10	FY11	FY12E	FY13E
NII	2.3%	2.5%	2.2%	2.3%
Fee Income	0.4%	0.4%	0.3%	0.3%
Treasury Income	0.2%	0.1%	0.1%	0.1%
Employee Cost	0.9%	1.1%	0.8%	0.7%
Operating Costs	1.5%	1.6%	1.3%	1.4%
Provisions	0.9%	0.6%	0.9%	0.8%
Tax	0.3%	0.3%	0.3%	0.3%
ROAA	0.7%	0.8%	0.7%	0.7%
RoAE	12.6%	15.8%	13.4%	14.1%

Business Profile

	FY10	FY11	FY12E	FY13E
Advances	168491	213096	248257	295426
CD ratio	73%	71%	72%	72%
Deposits	229762	298886	346708	409115
CASA Deposits	63963	75968	89051	106662
CASA Ratio	27.8%	25.4%	25.7%	26.1%

Growth ratios

	FY10	FY11	FY12E	FY13E
Net interest income	4.7%	35.7%	8.1%	20.9%
Fee income	0.4%	7.7%	10.0%	12.0%
Pre-provision Profits	-13.8%	14.4%	25.0%	11.3%
Net Profits	-42.1%	42.9%	-0.8%	17.8%
Advances	17.9%	26.5%	16.5%	19.0%
Deposits	21.1%	30.1%	16.0%	18.0%
Total Assets	21.9%	27.7%	14.8%	16.9%

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Bank of India			
Date	CMP	Target	Recommendation
30-Jan-12	353	300	SELL
5-Jan-12	313	325	REDUCE
9-Nov-11	327	300	SELL
4-Oct-11	313	325	REDUCE
26-Jul-11	389	390	REDUCE
3-May-11	394	444	HOLD
24-Jan-11	461	491	HOLD

Rating Legend	
Our Rating	Upside
Buy	More than 15%
Hold	5% - 15%
Reduce	0 – 5%
Sell	Less than 0%

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